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SIPDIS

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SUBJECT: PROPOSED IRAN-ARMENIA PIPELINE: STILL NO MONEY

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Ref: YEREVAN 382

SUMMARY

1. (SBU) Despite recent media reports about an Iran-Armenia gas pipeline deal, our meeting March 22, 2004 with Deputy Minister of Energy Areg Galstyan confirms that any such deal is still more a vague, albeit strong, desire than a real plan. Both the Deputy Minister and resident European Delegation representative Moret dismissed press reports that the EU will pay for the pipeline in exchange for an early closure date of the Armenian Nuclear Power Plant (ANPP). End Summary.

EU NOT LIKELY TO PAY FOR PIPELINE

2. (SBU) Europe's longstanding 100 million euro offer for Armenia to set an early closure date for ANPP has set the backdrop for numerous press reports that the European Union will pay for the Iran-Armenia gas pipeline in exchange for closing the nuclear plant. But both Deputy Minister Galstyan and Jean-Francois Moret, the EU's Programs Coordinator in Armenia, told us that the EU has never offered the money for the purpose of building the gas line, which Armenia wants in order to diversify its energy sources rather than to replace the production capacity of the ANPP. The EU has offered money only for the purpose of replacing the capacity lost due to an early closure of the ANPP. (Note: The status of the EU's offer is in doubt since the bilateral meeting February 10th. There the EU representative said that Armenia's concerns about energy diversity cast doubt on any imminent closure of the ANPP even with the EU money to build replacement capacity, and that the EU must therefore review their commitment to the offer. See Reftel. End Note).

NEW GAS LINE WOULD ADD DIVERSITY, NOT CAPACITY

3. (SBU) According to Mr. Galstyan, there are two conditions for Armenia agreeing to a date to close the ANPP: it must have replacement electricity production capacity, and it must have a diverse base of energy sources. Mr. Galstyan pointed out that the gas pipeline addresses the problem of diversity but does nothing to add capacity, which is limited by the output of Armenia's gas burning power plants. The current gas pipeline through Georgia has significant unutilized capacity, and could supply enough gas to meet the replacement capacity of the ANPP if Armenia upgraded existing thermal plants or built new ones. But Armenia, he notes, is unwilling to accept such a large share of its energy supply depending on the single gas line through Georgia. While the Iran-Armenia gas line would surely satisfy Armenia's post-ANPP demands for a diverse energy supply, to also increase capacity would nevertheless require the development of new thermal power resources exceeding the cost of the pipeline.

IF NOT THE EU, WHO?

4. (SBU) Deputy Minister Galstyan said that he thinks that the likelihood of receiving European money for the pipeline is small, and that finding money for the Armenian portion of the project was still a major obstacle. According to Galstyan, Iran is willing to construct the Iranian portion of the pipeline. He hopes for USD 40 million in grants and another USD 60 million in investment in the pipeline to finance the Armenian portion, but said that there were no obvious sources of money at this time. He said that the talks

about the pipeline do include ArmRusGazprom, but that their financial involvement can be only "secondary". Galstyan disparaged press reports stating the details of a deal with Iran, saying that no one knows anything yet about prices, quantity or even the destination or diameter of the pipeline. These variables will ultimately depend on the economics of the pipeline and the decisions of its financiers.

COMMENT

15. (SBU) the Iran-Armenia pipeline idea has gained no traction over the past ten years because no one has been willing to pay for it. The possible connection with the EU's 100 million dollar offer to close the ANPP does not, in itself, change the situation because the pipeline cannot itself meet Armenia's two necessary conditions for closing the ANPP: replacement capacity and diversity. Because any large-scale EU assistance depends on a closure date of the ANPP, the "deal" as often outlined in the press cannot give both sides an acceptable outcome.

WALKER